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## Lloyds Bank Review



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# Lloyds Bank Review

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New Series

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*The Bank publishes from time to time in this REVIEW signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles. They are published in order to stimulate free discussion and full inquiry.*

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## Britain and European Recovery

*By Professor D. H. Robertson*

This article forms the text of a lecture delivered on March 29th to the *Société d'Economie Politique de Belgique*. The table and some of the figures in the text have been revised.

**A**S a professor, when I go among business men and officials, I prefer to try to find out what they are doing and thinking rather than to offer them instruction ; and as an Englishman, when I go among foreigners, I prefer to learn about their problems rather than either to blow the trumpet of my own country or to blacken its face. But I recognize that it is in the bond that I should start this evening's proceedings with some connected remarks about Britain and European Recovery, and I shall try to do so with the same candour as if I were talking to my students at home. I confess, however, that I have found preparation for the task almost inconceivably difficult.

In some respects, it is true, it *should* have become easier to think coherently about the economic problems of Western Europe than it was in the autumn of 1947. In those days the vague general sense that Western Europe was in peril—peril greater than it was yet possible for responsible statesmen to admit—led to the investment of economic terms—vague terms like “integration” and over-precise terms like “Customs Union”—with a symbolic and emotional significance which was not helpful to clearness of thought. The course of events has led to some crystallizing out of issues which were then confused. The reaction of Russia to the Marshall Offer and her subsequent behaviour in Prague, Berlin and elsewhere have precipitated a definite military alliance between certain of the West European countries, including yours and mine. Further, it has been evident from the start that such an alliance would make no sense except as part of a wider Atlantic pact involving not only Canada but the United States ; and the concept of “Western European Union” has thus been freed from a certain misty suggestion of the emergence of a third World Power which, with or without the British Commonwealth in tow, should be equally detached from the United States and from the Russian world. That dream having been laid aside, the very difficult problem of the correct *economic* relations between Western Europe and the United States

should become easier of rational discussion ; and what there was of substance in the dream can, let us hope, find harmless, and even possibly fruitful, expression in purely European cultural contacts and debating assemblies. I do not mean, of course, that the various strands of policy can, or should, be entirely separated out. In particular, the military pact is bound to have—has already had—economic consequences which will colour the task of the agencies of economic co-operation. My point is simply that the work of these agencies should become somewhat easier both to conduct and to appraise now that it has become specialized out—now that they are no longer to be, as at one time seemed possible, the sole vehicle for the expression of apprehensions and resolves transcending their own sphere.

In other respects too, the situation has gained in clarity. Progress has been made in the dissipation of two opposite heresies, both of which could be found wrapped up in the innocent-looking plea that the balance of payments difficulties of Western Europe were "simply due to the War." In my country, even in mid-1947, the idea was still unacceptable that the gaping wound in our side had anything particular to do with our own financial policy. The classic words uttered at that date by the then Chancellor of the Exchequer still stand on record :—"the contrast is most remarkable between the great difficulty of the overseas position and the relative ease of the purely domestic financial position, in which things are very much better and easier than we would have had any reason to expect two years ago." Nowadays, under the Cripps régime, *nous avons changé tout cela*. Or have we *not* changed it so much as would appear ? To that problem I shall return ; but anyway lip-service is now everywhere paid to the doctrine that domestic inflation is the Number One enemy not only of good order at home but of the achievement of external balance.

You in Belgium, with your monetary purge and your bank-rate policy, never fell victims to *this* heresy, at any rate in theory, though you may have compromised a little with it in practice. But I do not think I can acquit you altogether of the other heresy which lies wrapped up in that easy-going phrase about Europe's balance of payments difficulties being "simply due to the War." Not so much a heresy, perhaps, as a certain clouding of the eyesight, preventing the sufferer from discerning how strong and persistent are the forces making it progressively more difficult for the manufacturing populations of Western Europe, however correct their monetary arrange-

ments, to earn from overseas the requisite fodder alike for their own fastidious stomachs and for their insatiable machines. Indeed, this is a matter on which it has not been easy—is not easy even now—to form a confident judgement. It is true that ever since the turn of the century it has been evident that the filling-up of the world's empty spaces on the one hand, and the inevitable growth among the newer nations of industrial capital and industrial technique on the other, were tending to blur the outline of the old nineteenth century division between the granaries and the workshops of the world. But the great revolutions in agricultural technique in the inter-war period seemed to bring a sudden reversal, lowering the cost of production of raw produce everywhere, and lowering it more in the new countries than in the old, so that if the gap of comparative advantage, on which the volume of worth-while trade depends, was being encroached upon from one side it was still widening out on the other. In 1939, in spite of the temporary pressure on metal supplies caused by re-armament, it still seemed more to be apprehended that Western Europe should suffer again, as she had done in 1921 and 1929, from the occasional repercussions of overseas gluts than from the persistent pressure of overseas shortages.

We could not then foresee the drawing of the iron curtain across Europe nor the dissolution of Java and Burma in chaos and blood, though we ought perhaps to have foreseen the emergence of the revolutionary notion that some day 1,000 million Asiatics would take it into their heads to expect to have enough to eat. I am not sure even now that the relative price situation is proof against sudden reversal, which is perhaps an argument, to which I shall return, for going slow in certain respects. But I do not quarrel with a recent tendency in my country to remind Cabinet Ministers, who find the opposite comparison with the nineteen-thirties so much more convenient for their speeches, that the terms of trade are still as favourable to Britain as in the nineteen-twenties and far more favourable than in 1913, and that their further deterioration may have to be regarded not as a catastrophe but rather as an indication that our projected climb to solvency is really proceeding according to plan. And, more generally, I welcome and endorse the growing recognition on both sides of the Channel and on both sides of the Atlantic that the economic reconstruction of Europe is a Long-Term and an Up-Hill Job.

For I think that recognition is growing on the other side

of the Atlantic as well as on this. The Cambridge philosopher and economist Henry Sidgwick is reputed to have once said that the best recipe for true happiness was "to take an active interest in tolerably prosperous persons and institutions." The Americans, luckily for the rest of us, are well aware of the existence of this source of happiness : but it cannot be denied that in a relation of this kind the tendency of both parties to pitch a bit high the standard of potential prosperity required to be shown may be an obstacle to clear thinking and wise policy-making. I take off my hat to the devoted body of officials who drafted, desperately against time, the first European response to the Marshall offer ; I do not know where any of us would be now but for their labours. But it must be confessed that their desire to prove that they belonged to "tolerably prosperous institutions" led to a certain chirrupy brightness about their work—a brightness of a kind already familiar to the readers of the British *Economic Survey for 1947*—verging at times on smugness and reaching its fine flower in the British Treasury's claim (hidden, it is true, in the decent obscurity of an appendix) to have scotched the snake of inflation by means of a bogus budget surplus and a drive to super-cheap money. Nor, it would appear, was this rosy tinge at that time unwelcome on the other side of the Ocean. This defect is quite remarkably absent from the document which will claim our attention in a few moments—the Interim Report of the O.E.E.C. published in January, 1949. It is true that it contains a few misty paragraphs which one conjectures to have floated in at a high level at a late stage of the drafting to save somebody's face or soothe somebody's feelings. But in the main its drastic realism does its authors the greatest credit ; and the calm temper and generous response with which its conclusions, disappointing as they may have been to over-sanguine hopes, have been received not only by the Administration but by the Congress of the United States bear witness surely to a growth of understanding on which much may yet be built. It was not the sombre tones of the Paris report but the chirruping of the unlucky Mr. Mayhew which put the second year of Marshall Aid for a moment in peril.

I started to give some reasons why it should have become easier to form a reasoned judgement on the economic problem of Western Europe. But it is still appallingly difficult. Let us turn then to the document which must be our Bible, the O.E.E.C. Interim Report which I have just mentioned. Obviously I cannot summarize in a few sentences this highly

complex document, but let me remind you of a few of its highlights. Please note that all absolute figures which I quote are to be interpreted as meaning thousand million dollars. The 16 Marshall Plan Reporting Areas<sup>1</sup> are—or rather before Christmas were—hoping to increase their industrial production by 1952-3 to a level 30 per cent.—so far as such index-numbers mean anything—above pre-war, the corresponding figure for agricultural production being 15 per cent. The O.E.E.C. Report regards these—what shall we call them? targets?—as highly sanguine: while not perhaps technically impossible, they pre-suppose either an unprecedented rate of growth in output per man hour or—a brief but searching phrase—a compensatory “increase in hours of work or increase in the labour force employed in the vital sectors” of the economies of the countries concerned. But they pre-suppose something more—availability of food and raw material and certain other essential supplies from the outside world. How did the Reporting Areas propose to obtain these after the cessation of Marshall Aid in 1952? Answer, by exporting 10·6 of goods and 1·2 net of services to the outside world, which, with the aid of 0·2 net surplus with the outside world earned by their dependent territories, would enable them to pay for all but 0·8 of 12·8 of imports.<sup>2</sup> The figure for export of goods represents an increase of one-third in volume on 1938, but of 70 per cent. on the figure programmed for 1948-9, which presumably corresponds fairly closely to the actual current state of affairs.<sup>3</sup> The figure for net services represents an importing power only about one-third as great as pre-war, since a doubling of the money value of current services goes scarcely any way to compensate for the conversion of the whole Area from a net receiver into a net payer of interest.

The O.E.E.C. Rapporteurs felt compelled to describe these programmes as gravely over-optimistic, for a combination of two reasons, first the difficulty of finding supplies in the Outside World on the projected scale, and secondly the difficulty of paying for them. If current policies are continued,

<sup>1</sup> Switzerland did not report in numerical terms. Holland, Belgium and Luxemburg reported as one area.

<sup>2</sup> See Table overleaf, column (1). In interpreting Table 35 of the Report (p. 73), I have added to the figure for Western Hemisphere the 0·3 expected to be earned in North and Central America by the U.K. dependent territories, but have assumed that this is expected to be balanced by an equal deficit with other parts of the outside world.

<sup>3</sup> [There now (May) seems good hope that current exports are running well above the 1948-9 programmes.]

that 12·8 of imports must be written down, they say, to 9·8 ; even if they are drastically revised, the attainable figure is not likely to be much above 11·0. These conclusions are based on close reasoning, the course of which however at one point is not absolutely clear ; and I hope that the table below both correctly reflects the argument of the Report and makes it a little more explicit. The key to the argument is of course the dichotomy of the Outside World into two parts—the Western Hemisphere and the Remainder, which includes Eastern Europe, the British Sterling Dominions, the Middle and the Far East.

**Balance of Payments of 16 Reporting Areas with the Outside World,  
1952/3.**

**Thousand Million dollars**

	(1) Countries' programmes (para. 241)	(2) Countries' programmes corrected for Report's estimate of availabilities (paras. 178, 247)	(3) Report's estimate if policies unchanged (paras. 242, 249)	(4) Report's estimate if policies drastically revised (paras. 244, 249)
<b>EARNINGS—</b>				
Western Hemisphere	4·8	—	3·6	4·3
Remainder of Out- side World ..	7·2	—	6·2	6·9
Deficit .. ..	0·8	—	—	—
<b>TOTAL</b> ..	<b>12·8</b>	—	<b>9·8</b>	<b>11·2</b>
<b>IMPORTS—</b>				
Western Hemisphere	5·9	5·7	3·9	?
Remainder of Out- side World ..	6·9	5·9	5·9	?
<b>TOTAL</b> ..	<b>12·8</b>		<b>9·8</b>	<b>11·2</b>

• Exports ..	..	..	..	..	10·6
Net invisible exports ..	..	..	..	..	1·2
Surplus of dependent territories ..	..	..	..	..	0·2
					12·0

Column (1) summarizes the countries' programme as submitted last autumn. It will be seen that its fulfilment would imply not only that the deficit of 0·8 can be somehow met, but that 0·3 earned in the Eastern Hemisphere can be spent in the Western. Column (2) records the Report's finding that while all the supplies projected to be bought from *North America* could in fact be found there, there is an over-estimate by 0·2 of what could be supplied by *South America*, and by

no less than 1·0 of what could be supplied by the Remainder of the Outside World. Columns (3) and (4) show the Report's estimates of what is attainable (a) without, and (b) as a result of, drastic changes in export policy.<sup>1</sup> (3) represents an increase of exports of goods by 7 per cent., (4) by 23 per cent., above 1938 levels. Column (3) appears to imply that 0·3 earned in the Remainder of the Outside World could be converted into spending power in the Western Hemisphere, though the actual language of the Report (para. 250) casts some doubt on this. At first sight it would seem that the figure of 5·9, as an overriding maximum of what could be supplied from the former source, should be carried forward also into column (4), thus increasing to 1·0 the sum assumed to be earnable in the Remainder of the Outside World and spendable in the Western Hemisphere. But it appears more probable that the "drastic change in export policies" assumed in Column (4) is intended to include also a strenuous attempt to expand, by an unspecified amount, the sources of supply in the Remainder of the Outside World.

Before leaving the Report's account of Western Europe's relations with the Outside World, it is necessary to probe a little beneath the veil of globality into the position of some individual countries. That projected 12·8 of imports represents a volume about the same as before the war; but the total conceals a planned reduction by the United Kingdom of about one-fifth—a reduction moreover which has already been achieved—and a projected increase by almost every other reporting area. For the whole region, the projected expansion of exports is plus one-third and the hitherto achieved expansion *minus* 3/10; for the United Kingdom the corresponding fractions are plus 9/20 and plus 1/6; for Benelux, you will forgive my mentioning, they are about plus one-fifth and *minus* one-quarter. No doubt there are many things to be taken into account in comparing both the aspirations and the achievements of different countries; in particular the fact that the lion's share of the direct loss, actual and prospective, of net overseas investment income has been suffered by the United Kingdom made it natural and right, according to the hard logic which rules these things, that she should take the lead in readjustment. But just as within a country the receipt of interest from overseas benefits not only the capitalists who

<sup>1</sup> The estimates of total earnings are to be found in paras. 242 and 244, those of earnings in the Western Hemisphere in para. 249. The figures for earnings in the Remainder of the Outside World have to be derived by difference.

pocket it but the workers who consume the imports thereby made available, so within a group of countries it benefits not only the direct recipient but those other countries which are thereby enabled to evolve a convenient pattern of multilateral trade. And if one side of the beneficent triangle is knocked away, those other countries too must surely sooner or later readjust themselves to the effects of the blow.

This brings me to the last piece of arithmetic in the O.E.E.C. Report to which I wish to refer. The Sixteen Reporting Areas, I have mentioned, are—or were—contemplating an aggregate deficit of 0·8 with the Outside World : but they were also contemplating an aggregate surplus of 0·8 with one another. A quarter of this is a projected surplus of Eire with the United Kingdom, which need cause no widespread loss of sleep : another quarter is a projected surplus of the Continental countries with the United Kingdom which also needs considering against the wider background of the Sterling Area, but which looks, in the light of what I have just been saying, like a precarious survival from happier days. The remaining half, for which, I am afraid, Benelux and the Bizonal are mainly responsible, represents a conflict of expectations among the Continental countries which constitutes a plain arithmetical absurdity and must somehow be smoothed away. Gentlemen, this is a harsh and ungrateful world. Your country, like mine, can claim, I think, to have acted as a good neighbour even before the Marshall Plan was born, in furnishing on tick its still more impoverished friends with needed supplies, and more recently in agreeing to pass on as a free gift substantial quantities of the American help to which it might have hoped to establish an unconditional title. But new situations demand new virtues. I fear that in the bleak days ahead excess exports of steel billets to one's near neighbours, especially of steel billets neatly tied together with sprays of azalea, may not be regarded as badges either of sense or of virtue if they are made in the expectation of thereby securing command over an unlimited influx of high-powered American motor-cars.

Where do we go from here ? There has been an elaboration—it is hard to be sure that it constitutes a real strengthening—of the Organization in Paris. Six Points from Mr. Hoffmann have been followed by Eight Resolutions—one per caput—from the new Consultative Group of Ministers, calling

for vigorous action and for more reports. For the outsider it is useless to try to follow the course of events week by week. He must be content to brood over some of the major problems suggested by the Interim Report. For my remaining remarks—for my time is passing—I will select three, and attempt to discuss them separately, closely connected though they are.

(1) First, in its project for Western Europe's recovery of balance with the Outside World, has the Report hit about the right admixture of import-curtailment and export-expansion? Has it gauged about right that permanent shifting of the margins of comparative advantage which is turning into economic sense projects which twenty years ago, while they might nevertheless have been undertaken, could have been justly criticized as economic nonsense? No one can be sure. The Rapporteurs duly disclaim (para. 429) the notion that autarky is the right solution for Western Europe as a whole any more than for its individual components. But, as I have already hinted, their verbal commentary on the difficulties in the way of increasing international trade seems to be even gloomier than the figures in which it finally eventuates; and one cannot quite suppress the suspicion that their own findings, as well as the national plans for whose revision they call, may have been given an undue slant in the autarkic direction by the dreams of ambitious technicians, by whom the fact that a country *could* make or do such and such is too easily taken as proof that it *ought to be* making or doing it. Is England's agricultural programme perhaps extended not merely up to but beyond the limits of reason? Is it really long-run sense for France to try to set up as one of the granaries of the world? Have the technical arguments for the refinement of oil near its sources of supply lost their force so completely as to justify the vast and irreversible capital developments planned in more than one country?

It is important to notice that this issue cuts across that of more or less austerity, more or less *dirigisme*. In my country it is not a prophet of liberalism but a pretty hot *dirigiste*, my colleague Mr. Kahn, who has lately been urging that the British planners are now setting their sights both for exports and for imports too low, and not showing sufficient concern to reap the advantages of the international division of labour. Not laissez-faire but still sharper pressures on the exporter and the consumer of home-produced goods is the prescription to which his diagnosis leads him. Where planning angels tread upon each other's wings, fools may well hesitate to rush

in. But even fools may indulge in certain emotions. One is a doubtless purely nostalgic regret that, where future trends are so uncertain, decisions so formidable and so difficult to reverse—decisions, if I may exaggerate a little, such as that to set half the Continent of Africa blazing with sunflowers—should fall to be taken by a central *corps d'élite* however skilled, instead of being dispersed among many hundreds of questing minds and venturing wills. Another, which I refuse to admit as purely nostalgic and to which I shall return, is that problems which would anyhow be obscure enough are rendered ten-fold more obscure if they have to be approached in a setting of meaningless prices and fanciful exchange rates.

(2) I pass to my second issue. In the solution of Western Europe's problem how big a part do we expect to see played by a more intense division of labour between its component areas? There are here two questions involved—how great are the advantages to be reaped, and what are the mechanisms available for reaping them. On the first, it must, I think, be said that at the height of the sellers' market there was some tendency to exaggerate the latent complementarities between the Western European countries and to close the eye to their inevitable by-and-large competitiveness. By all means let us explore and exploit the former for what they are worth: but let us not be surprised or shocked each time we are brought up against the painful truth that we are all—or at any rate several pairs or triads of us—seeking to earn our livings in much the same way—that we can never hope to form a perfect jig-saw puzzle in which each of us can lie still in his allotted place without inconveniencing any of the rest.

To the second question, the question of means, there seem in theory to be two possible answers. One is to sweep away the barriers to trade and to let the leaven of their removal work—to allow the forces of competition thus released to have their head and fashion a new and more rational distribution of economic activity. It is, I think, on this method that the hopes of our American benefactors were originally set; to them, misreading perhaps a little the lessons of their own history, the logic of the matter seemed simple—fewer barriers, larger markets, lowered costs, better living. But though this method might produce the best results in the end, the trouble is that it is neither swift nor painless, and does not therefore square too easily with the political needs of a situation in which results are sought by a definite and early date, and in which hostile eyes and lips can be relied upon to be actively

at work to descry and exploit each sectional grievance, each local dose of disemployment. The second method, more in consonance with the fashionable philosophies of the day, is to call upon the business interests concerned, with more or less prodding and surveillance from their Governments, to carry out the indicated re-locations of industry by conscious co-operation. These interests, indeed, would presumably be better placed than any Central Planning Body for knowing what should be done ; but a doubt, I am afraid, must remain as to how far their activities would in fact be devoted to doing it. " It is certainly in the fruit and vegetable trades " so reads a sentence in the first report of the Franco-Italian Commission on Customs Union, " that the producers of the two countries ought to make efforts to limit the dangerous effects of excessive production and to take every advantage of the Union by means of well thought out understandings (*intese ben studiate*). " " Undesirable competition " so I read in a report, admittedly unofficial and nearly a year old, on the progress of the Benelux design, " undesirable competition between Belgian and Dutch interests could in a number of cases be eliminated by cartel agreements. The Governments could make the latter compulsory in cases which come into consideration for such regulation." All this, I must confess, sounds to me more like planned protection of the *status quo* than planned re-deployment. When one reflects on the history of steel-plant location in England, when one remembers the propensity of devoted Ministries of Agriculture to fight to the last early snowdrop for the interests committed to their charge, it is not easy, I think, to feel very sanguine about what is to be looked for in this matter from the modern cartelized or semi-socialized state. Perhaps I am unduly sceptical ; perhaps some things are already being done in Benelux and others planned in Paris which will put me to shame ; but at present, when I hear grand words like " integration " and " harmonization " floating about the air, I am inclined to feel that the most—and it will undoubtedly be something—that we can expect in this field from the young lady International Planning is that she will lend a lusty hand in strangling some of the more fantastic offspring of her elder sisters, the Several National Plans.

(3) The last of my three selected issues, and I believe the most fundamental, can be approached in various ways. I will lead up to it by repeating what I said just now—that right judgement as to the appropriate division of labour between Europe and the Outside World—and the same is true of the

division of labour between the different parts of Europe—is gravely hampered by the prevalence of manifestly false prices and false exchange rates. And not only right judgement, but practicable administration. One does not need to be a dyed-in-the-wool non-interventionist to feel that, unless the whole conduct of foreign trade is to become completely totalitarian, there is a limit to the extent to which people who have to earn their own bread can continuously be chivvied, on the plea of social interest, into buying in what are ostensibly the dearer markets and selling in what are ostensibly the cheaper ones. I find it hard to credit that, whatever other steps are taken, the programme of action called for by the Interim Report can hope to arrive anywhere near its goal so long as it is carrying this burden of false values round its neck. I have come to believe that an essential condition for its success is a systematic revaluation of the West European currencies in terms of one another and of the United States and Canadian dollars.

I do not, I hope, under-estimate the difficulties, political and technical, in the way of undertaking this major operation, or over-estimate the extent to which an attempt to discover and establish "right" rates of exchange could hope to achieve precision or to smooth away all future strain and stress. I should not claim that it could be relied upon to obviate entirely over the next few years the need for import controls and export pressures. But I think that unless it can be effected the administration of the European Recovery Programme will be in perpetual difficulties; and moreover that complaints that the Western Hemisphere is fundamentally and incurably unresponsive to Europe's attempts to pay her way with it will fall, and to some extent will deserve to fall, on deaf ears.

What then is the fundamental obstacle which stands in the way of the nations of Europe taking this apparently sensible course? It is, I suppose, a deep-seated doubt, based on painful experience in France and elsewhere, whether under modern political conditions the results even of the most clear-cut and deliberate devaluation can be relied upon to stand fast against the erosive action of mounting money incomes and swelling demands for subsidy. Twenty years ago in my country, in the first flush of revolt against the restored gold standard, exchange depreciation used to be represented as a wonderful device by which people could be induced to accept a set-back in the standard of life against which, if it had been presented to them in the form of a fall in money incomes, they would have resolutely kicked. Experience has shown that that

was a rather simple-minded view, and that, as I have recently put it elsewhere, depreciation may well prove to be like a pill rolled in jam—a clever child will swallow the jam and spit out the pill.

It is for this reason that I feel bound to pose this last of my three issues not in the form which I should have liked, "Is devaluation desirable?" but in the apparently irrelevant but perhaps really more searching form, "Are budget surpluses enough?" In an over-extended economy they are unquestionably better than budget deficits; but if they are attained by means of stupendous rates of taxation, both direct and indirect, pressing heavily on the springs of enterprise and individual thrift and covering elaborate systems of internal subsidy, one cannot feel confident that the sovereign people in their individual behaviour will not be continually attempting to nullify the collective decisions to which in democratic theory they must be held to have agreed. In my country, under the lash of Sir Stafford and his planning *corps d'élite*, to both of whom be all due praise, we have taken the first steps in harmonizing internal policy with external need. But if it be true that it is devaluation for which the O.E.E.C. Interim Report, for all its reticence on the subject, now really cries out aloud, and if that still appears to our rulers as something which they dare not face, lest in a welter of flabby money the rock of the new parities should dissolve into shifting sand, then even in England there is still, as we say, a long row to hoe. And until it is hoed, perhaps it behoves us virtuous Nordics to exercise moderation in our reproaches to you naughty luxurious Latins; for after all it is we, not you, who have thrown that respectable old corset, the rate of interest, on to the bonfire, and have chosen this juncture of the world's history at which to indulge in an unprecedented orgy of gratuitous false teeth.

D. H. ROBERTSON.

*Trinity College, Cambridge.*

*May, 1949.*

## Liberty, Equality and Full Employment

*By Honor Croome*

**T**HIS essay might equally well have been entitled "The New Balance of Class Power" or "The Dilemma of Social Democracy." For its thesis is broadly this: that the newly conceived and applied power of maintaining by administrative action whatever relation may be desired between total demand and total supply—i.e. the policy of full employment—has had, and will increasingly have, a revolutionary effect on the society adopting it; that, while only the maintenance of full employment can make democracy a felt and genuine reality, it subjects the assumed virtues of democracy to a crucial test; that, failing the test, democracy fails outright; that omens of such a failure are not lacking in Britain today. This does not mean that full employment policy is either a bad thing in itself or doomed by internal contradictions to failure. On the contrary, the perfecting of that policy ranks with the establishment of international peace as the most important task confronting modern society; and the middle years of the Twentieth Century may be remembered by this achievement—if it is accomplished—when Hitler's war is no more than an ugly legend. If it is not accomplished they may be differently memorable.

One cannot expect the years immediately following a major war to be a period of comfort, social harmony, and fully restored freedom. But few would have expected that a victorious Britain would, after nearly four years of peace, have found herself less free than any pre-war country except Germany, Italy and Russia. One great and essential liberty remains—freedom of thought and of speech; though even that is clogged and diminished by the shortage of paper, and one essential component—freedom of education—has, all things considered, a very dubious tenure of life. As for other liberties, the list of the things which the citizen either may not do at all or may only do with explicit and tediously obtained permission embraces practically every form of human activity. A man may not build himself a house, nor change his occupation, nor open, equip and operate a business, nor, if a farmer, rotate his crops and feed his stock, nor, if a shopkeeper, supply

what his customers want, nor, if a professional man, import books essential to his work, nor travel abroad, without more or less detailed official sanction ; he cannot correspond with friends overseas without the risk of having his letters tampered with ; he cannot regulate the laying out of his own income, since that is either directly determined by rationing and the provision, through taxes on that income, of communal services, or more subtly directed by the apparatus of special tax and subsidy. The world beyond the seas is further away, in time and effort, than in the days of sail ; and behind the dividing barrier of exchange regulation the economic life of the citizen is less under his own control than in the days of the Tudors. Even Tudor officialdom is not recorded to have ordered the ploughing-in of a crop ready for harvest, because its sowing had not been sanctioned, nor made it an offence for a man to give a neighbour a pitcher of milk, nor forbidden him to repair his own house with his own hands. No guild tyranny was tighter than that of the officially encouraged closed shop, no sumptuary law more explicit than many prohibitions of the non-utility—and no official debasement of coinage more effective, as a barrier against the winning of independence through personal savings, than the fiscal policies of today.

This, it may be said, is the aftermath of war ; and so in some measure it is. One cannot with impunity subject a country's economic life to the colossal strains and distortions of modern warfare, incur huge foreign debts, dissipate the means of meeting them, and then on the morrow of victory leave everything to find its own level. With the best will in the world, the economy must be eased back to normal by degrees ; to abandon control and invoke the unaided forces of supply and demand after years of circumventing them is as risky as abandoning the controls of an aeroplane in flight and invoking the unaided force of gravity. But this easing-back, this controlled return to *terra firma*, demands even more skill than level flight ; and particularly it demands the most delicate and intelligent handling of the monetary and credit mechanisms which control the volume of employment. Today, that mechanism is being so handled—for reasons to be duly analyzed—as actually to prevent, instead of facilitating, the return to normal, and to prolong indefinitely that deprivation of liberty for whose origins the War could legitimately be blamed.

Of the theoretical and technical difficulties of full employment policy I am not qualified to write. I will merely assume—humbly acknowledging that this is a very large assumption—that the Treasury and the Bank of England between them, by suitably manipulating the various valves, sluices and pumps by which purchasing power is released, withdrawn and directed to one sector or another of the economy, can in fact maintain the total volume of demand pretty much where they wish—provided, at all events, that they are politically free to do so; that the steering gear, though possibly afflicted with more “play” than is desirable, is soundly designed and will work.

This assumed solution of all problems of theory, however, still leaves formidable possibilities of social stress amounting, in total, to something near a revolution. It is with the nature of this revolution, as it is taking place in the particular historical circumstances of today, that this essay is concerned.

One might weave a pleasant fantasy on the theme of an economy as perfectly competitive as technique allows, devoid of trade associations, trade unions, restrictive practices and centrally imposed physical or price controls; a world of more-than-nineteenth-century economic freedom, on whose innocence there should be superimposed a twentieth-century sophistication in the matter of employment policy—a successful control of the volume of demand supplemented by the whole-hearted provision of public education and by a smooth-running system of Labour Exchanges, training facilities and moving grants. Such an economy would certainly have moved, further and faster than did that of the Nineteenth Century, away from the social conditions preceding the Industrial Revolution, to become something very different from, and better than, present-day Britain.

This fantasy, however, is even less useful than most historical “ifs”. It is not on such a society that full employment policy is making its impact, but on the very different society emerging from two Great Wars and the latest and greatest of many slumps. The new economics can do something to bring about those conditions in which the old would have been valid, but it cannot in itself undo the effects which the shortcomings of the old have helped to bring about. The policy indicated by the new analysis can only be imposed, now, on a society conditioned by generations of less-than-full-employment, restriction-minded, obsessed with immobility,

crystallized into monopolistic and near-monopolistic *blocs*, and planned to within an inch of its life. Moreover, that policy is being imposed (in so far as the mere failure to curb inflationary pressure can be dignified with the name of full-employment policy at all) by a particular party, the Labour Party, predominantly in accordance with the wishes and ambitions of one set of citizens, the trade union supporters of Labour. It is from the circumstances, economic and political, in which it has come to birth, that full employment draws most of its strength as a revolutionary influence.

## II

### FULL AND OVER-FULL EMPLOYMENT

Full employment suffers, as a subject of discussion, from the fact that it has never been defined to the general satisfaction. Lord Keynes' own definitions, logically exquisite, are unfortunately not susceptible to statistical check. Lord Beveridge, while analyzing out "frictional" and "structural" unemployment—what one may call the unemployment of immobility—from the unemployment of depression, offers as a quantitative goal a residue (97 per cent. employment) obtained by deducting from the total what can only be estimates of the first two—and suggests no means of checking these estimates. If the unemployment of immobility is in fact, at any time, larger than estimated, then attempts to maintain 97 per cent. employment by acting on the volume of demand will obviously be inflationary. If it is smaller, then the authorities will be acquiescing in a total of unemployment unnecessarily high. Politically, this ambiguity has encouraged the least scrupulous politicians of the Left to pose as a proper and practicable ideal a state of literally "full" employment, 100 per cent. employment, which would of course be compatible only with a regimentation of labour for which the name of serfdom would be a euphemism.

The incompatibility of 100 per cent. employment with liberty is well enough understood for this particular interpretation of proper policy to be confined almost entirely to the columns of the *Daily Worker*. What is not realized so well is that the interpretation preferred by Labour in general leads in the same direction—to the alternatives of cumulative inflation on the one hand and permanent circumscription of economic liberty on the other. This latter interpretation can

be described as demanding an intense and permanent sellers' market for labour, with the volume of total demand so manipulated that the number of vacancies shall always be heavily in excess of the number of job-seekers. This policy is so defined, and contrasted (in tones of marked moral superiority) with the Conservative objective of "high and stable" employment, in the Fabian Society's recently published pamphlet on wages, which, approvingly prefaced as it is by the Minister of Labour and National Service, may be taken as reasonably representative of the official Labour view. The situation thus brought about is, of course, potentially inflationary. A permanent sellers' market for labour means a permanent upward pressure, or more accurately an upward pull, on wages, a corresponding upward movement in costs, a further monetary stimulus (since the increased costs must not, *ex hypothesi*, be allowed to choke off demand) and so on cumulatively. That is, if the "upward pull" on wages is to be allowed to take effect. At present it is inhibited—at least partially—by the acquiescence of the T.U.C. in the Crippsian policy of personal income limitation. The bargaining powers of the trade unions are in temporary and voluntary abeyance. So—a more fundamental matter, masked by this self-denying policy—is the competitive, individualistic process of adjustment which collective bargaining can do no more than hasten or distort. In so far as the trade unions are following the T.U.C. and Government lead and public-spiritedly blocking the pressure on wages exercised by their constituents, they are not merely renouncing, but actually reversing, their traditional rôle as those constituents' representatives; and are thereby subjecting their internal solidarity to disruption and disaffection and giving the Communists (to whom inflationary chaos would be a god-send) a thick stick to beat them with.

Nor is this the only way in which the policy of over-full employment diminishes that liberty. The same opposition of national and particular interests arises, to be similarly resolved in an authoritarian sense, over the distribution of labour between occupations. In a state of inflationary pressure, practically every job is undermanned. Wages, in this situation, can only move up, never down, and upward movements themselves are limited by the fear of making inflation overt; so no adequate differential can be established to encourage change. Yet, in the national interest, change there must be; some

occupations must be more favoured than others, some must be discouraged. The solution—the only possible solution when neither the carrot of better pay, the stick of wage reduction, nor even the ultimate sanction of dismissal, is available—is the use of physical authority ; the Control of Engagements Order, the little-used and repugnant direction of labour. How inadequate this solution is, when used as sparingly as now, the published figures of the distribution of labour make abundantly clear. To reconcile the national plan, and indeed the national requirements, with the present degree of over-full employment, much more drastic infringements of liberty are needed.

### III

#### LIBERTY AS THE WAGE-EARNER SEES IT

There is little sign that this loss of liberty worries the workers much. They have their own ideas as to what freedoms are important, ideas which it would be unrealistic to ignore in favour of the very different, because differently conditioned, ideas of the professional and business classes. The freedom most valued by the worker is the freedom to choose whether he shall or shall not stay in the particular job—not the occupation—in which he finds himself. To hold a job by grace and favour of the foreman is not freedom ; to be unable to leave it, however intolerably uncongenial it may be, is not freedom. Long experience of such lack of liberty not unnaturally brings the conviction that to be able to spit in the foreman's eye if one feels so inclined, to call for one's cards at the drop of a hat, is on the contrary all Four Freedoms rolled into one. And over-full employment bestows it in full measure. However illusory the material gains to be achieved by using the economic whip hand, the sense of having it to use if one chooses is a genuine sense of freedom ; and the more heavily weighted the sellers' market, the greater is that sense. Individually and collectively, then, the workers may be expected to demand the maintenance of such a degree of inflationary pressure, of over-full employment, as will preserve with a wide safety margin the freedom they most value—with little regard to other freedoms which they consequently lose, and still less for freedoms, valued by other classes, which have never much interested them anyway.

A change of administration would make little difference ;

for the price of office will, so long as the present temper of the wage-earning majority remains, be precisely the maintenance of the sellers' market. To drop control, while maintaining that market, in order to "set the people free" according to non-wage-earning ideas of freedom, will be to invite open inflation.

This indefinite continuance of authoritarian control is not seriously distasteful to the organized workers. They do not particularly want to build their own houses, to travel abroad, or to start their own businesses ; the Tory notion of a population craving such individual opportunity is pure illusion. They are not interested in free investment, whether at home or elsewhere ; the apparatus of licences, controls, prohibitions, quotas, exchange regulations and general frustration which makes the professional and still more the business man acutely conscious of loss of liberty, makes no direct impact upon them at all. There is no reason why it should, however great and certain their indirectly resulting losses. A traditionally propertyless proletariat which for generations has been mostly cut off from the exercise of such freedoms—not by deliberate tyranny, but by the mere evolution of the modern industrial economy—feels, now that they are withdrawn from others, no more deprived of them than it ever did. If this withdrawal is a necessary price for the maintenance of those conditions in which the workers' sense of freedom is greatest, then—such is the natural working class reaction—let it continue indefinitely.

Moreover, the divergence of class attitudes with regard to liberty is matched and reinforced by an equally wide divergence as to what can roughly be called the ethics of advancement. The oppression-born, depression-fostered degeneracy of the wage-earners' attitude to service—the clock-watching, suspicious, grudging ca'canny of the class warrior at the bench—can, with some effort, be dismissed as a passing deformity of the social sense, certain of cure under the therapeutic influence of social justice. But there remains something more permanent ; the profound dislike of the good trade-unionist, however public-spirited, for the free lance and his methods. Action should be collectively determined ; benefits should be collectively assessed ; the norm should be collectively established ; and the individual's only business is to share—of course on a footing of democratic equality—in the taking of these decisions and loyally to co-operate in implementing them. Solidarity is the supreme working class virtue,

and individualism is correspondingly open to condemnation in all its manifestations. Excellence is suspect; he who excels might constitute himself a pacemaker. Resourcefulness is suspect; it may lead to the cutting of collectively sanctioned corners. Imaginative innovation is suspect, no less because it is rarely the outcome of collective action than because it may threaten a vested interest in the obsolete. All must travel in convoy, at the pace of the slowest; whoever follows a privately charted course is, almost by definition, a pirate.

It is perfectly true that in the heyday of private enterprise the co-operative element in economic and social life was stunted and neglected, to the loss, not merely economic but spiritual, of all society. It is perfectly true that even today a far higher place needs to be given to consultation and teamwork, and that the rousing of a sense of common purpose, of social solidarity, in other matters than the mere determination of wages, hours and conditions, is one of the first needs of good government in economic matters. But it is also true that individual excellence, resourcefulness and imagination are more supremely necessary than they have ever been; that those possessing them are as essential to the economic and social health of the community as the ductless glands are to the living body; and if all incentive and encouragement is to be withheld from them in the name of the anti-individualist majority ethic, the economy will become not merely mediocre but cretinous. The power bestowed by full employment on the wage earners is, among other things, a power to pith and emasculate society.

Here is the first respect in which full employment constitutes a test of democracy. For democracy rests on the assumption not only that the will of the majority shall prevail, but that that will shall include a proper consideration for the rights of the minority. The working class constitutes a numerical majority. If it chooses to disregard all interests but its own and—which comes to much the same thing—all its own interests other than the most immediate and obvious, it can impose a policy embodying that lack of regard. The largest class can pursue a purely class policy; and the policy of over-full employment, of permanent inflationary pressure curbed by permanent specific controls, suits it, as has been demonstrated, very well. Suits it, that is, as far ahead as the short-sighted can see; for even the most exclusively conceived

working class interest is hardly served in the long run by an economic régime which, cramping and crippling free enterprise, is incapable of substituting an effective dynamic of its own ; which, so far as economic development is concerned, abolishes the suffrage of the market and is paralysed when it tries to implement the suffrage of the ballot box. Here, in fact, is the paradox ; a democracy incapable of maintaining full employment cannot, by reason of the economic subjection of the working class majority in a buyers' market for labour, be a democracy in the full sense. A democracy capable of maintaining full employment is also capable of maintaining over-full employment ; and if, as is psychologically likely, it insists on doing so, it destroys the conditions in which democracy can work.

#### IV

##### THE ECONOMICS OF EQUAL OPPORTUNITY

The danger that full employment may, contrary to expectation, be the enemy of liberty, is sufficiently demonstrated. But its effects, direct and indirect, in bringing about an equalitarian society are no less potentially revolutionary. Its direct, or directly economic, effects are admirable but accompanied by temporary inconveniences and dislocations ; its indirect or political effects are admirable only to the class-war partisan.

Its direct effect, once the worst obstacles to mobility have been overcome by relief to the housing shortage and the development of educational and training facilities, is to bring fully into play the good old classical principle of Net Advantages ; more pay for the less pleasant jobs, less play for more pleasant ones. So much the better, of course. It is an ethically admirable principle ; a society in which it had always reigned would be just and stable ; but its application in an economy whose whole system of relative prices has, in the past, been based on the practical inability of its members to abandon occupations of low net advantage and compete to enter those where advantage is high, is not without difficulty. Dr. Johnson said that no sensible man would be a sailor if he had the choice of going to jail. There are, only too evidently, comparatively few sensible men who will be miners, and comparatively few sensible women who will be cotton spinners, if they have the choice of following any other occupation at

comparable pay. When, owing to shortage of employment, and the immobility partly caused thereby, the choice did not exist, it was possible for the economy to base itself on cheap coal and cheap cotton. With the emergence of real possibilities of choice these particular foundations develop alarming splits and cracks. The wages which must be paid to induce men to hew coal when their only alternative is navvying—or unemployment—are very different from those which must be paid to induce them to choose mining out of the whole gamut of occupations. And the economy based on coal so hewed will have a correspondingly different price structure.

Coal is the outstanding and obvious example. Agriculture is another. But all through the structure of occupations, real freedom of choice consequent on full employment may be expected to bring about disconcerting changes in relative wage costs, corresponding to the newly effective subjective valuations (and the newly exploited abilities) of the working population. These changes and adaptations are right, proper and desirable. But they and their consequences must be treated realistically. If miners and other workers in intrinsically unpleasant jobs are to get much more of the national income, others—other workers—must get less. Reductions in wages must be no less possible than increases; and the present tacit assumption that no reduction is ever thinkable, let alone enforceable, must be dropped. In conditions of over-full employment it is unlikely ever to be dropped; whether it will be dropped under full employment as I have roughly defined it, or whether it will persist as a cause of strikes and of frictional unemployment, and as an influence constantly working towards an inflationary state, depends on the good sense of the workers.

## V

### THE PLIGHT OF THE MIDDLE CLASSES

This reshuffling, re-pricing, and general tendency of occupations towards equality of net advantages includes, of course, the professions. With every broadening of the educational ladder they become, from this point of view, more closely assimilated to the trades. Success in the professions requires ability of a high order, ability which is bound to command in the future, as it has commanded in the past, a certain scarcity value. But no one knows how much of that scarcity has been, in the past, a scarcity of educational opportunity, and how

much a general rarity of natural gifts. One can safely say that there are more potential professional men and women in the total working force than there are actual practitioners of the professions ; that some, at least, of the scarcity value of professional qualifications can be expected to disappear under a régime of full employment and free choice of occupation. Given the initial social prestige of the professions and the net advantages traditionally attached to them, one can expect that all those capable of entering them will in fact do so ; little financial incentive will be needed. Already there is a considerable overlap between the lowest professional salaries and the highest wages ; and this does not stop young people from jumping at every chance of qualifying for these same relatively unattractive salaries. In so far as middle class standards have been maintained by a fortuitous restriction of entry to the professions, they would obviously be due to fall even were no other influences at work.

But in the plight of the middle classes today the element of fresh competition, the direct result of full employment and wider opportunity, is only a minor ingredient, and, of course, one representing a very small price to pay for the increase in social justice, and the better use of human material, represented by the opening of the doors of advancement to gifted newcomers. The real trouble is rather political than economic ; it lies in the attitude of the newly powerful, newly power-conscious working class majority to the standards, values and proper status of the non-wage-earning minority. The policy of full employment at all costs joins hands with the policy of equality at all costs, the power of the wage-bargain with the power of the vote ; and so joining, are not merely added but multiplied. In all ages, men have sought social justice ; in our age, social justice has been identified with equality of income—surely one of the most egregious pieces of question-begging in the history of political thought—to such an extent that to question their equivalence is a worse heresy than to question the value of free speech, free association, or free worship. Equality has been raised to the status of an absolute good, to which all other goods are subordinate and may legitimately be sacrificed. It is established, in principle, that any excess of individual wealth over the national average is legitimate material for redistribution ; and, since statistically speaking those having such an excess are bound to be in a minority subject to being

outvoted by the rest, this conviction means that only inertia and the most powerful considerations of immediate expediency hold up the completion of the equalizing process now in train.

This has been true, in a sense, ever since the coming of universal suffrage. But the main driving force of the conviction has been found within the ranks of organized labour, itself a minority movement. The coming of full employment policy as now conceived, with its immeasurable strengthening of organized labour, has turned that minority into a large and virtually all-powerful pressure group, which can not only direct the policy of a Government of which it approves but, if it pleases, make life unbearable for one of which it disapproves. Whatever seriously offends organized labour is politically impossible.

On paper, the Labour ideal, like the Communist, is a classless society. In fact, Labour policy is to bring about the one-class society, which is quite a different thing. The classless society would abolish all divisions, other than those of taste, ability and general congeniality, between man and man—and would, presumably, so constitute itself as to prevent the emergence of whatever degree of economic inequality would in itself enforce division. Any lesser degree of inequality, and any natural divergence of tastes, habits and standards, it could safely ignore—and indeed welcome as constituting at once a useful dynamic and an enriching diversity. The one-class society, on the contrary, takes as its canon a given set of class standards and aims at imposing these on its entire membership, deplored, discouraging and if possible prohibiting any divergence from the norm of the chosen class. The chosen class in this country is, of course, the urban artisan class. What that class likes (or thinks it ought to like) all may legitimately strive for. What it ignores, or finds unnecessary or objectionable, none may legitimately claim or acquiesce in. The national conscience is to be embodied in the Super-Ego of the good trade-unionist in the council house; a Super-Ego public-spiritedly concerned with the building of Jerusalem in England's green and pleasant land, but seeing no reason why the plan of that Jerusalem should provide on the one hand for many, or any, mansions as distinct from council houses, or on the other for such obstinately amenity-unconscious communities as Letcombe Bassett. One may instance the official disapproval of private motoring and of French cheeses and

wines—the “luxuries” and “acquired tastes” of the middle class—and the incorrigibly urban attitude exhibited by the Ministry of Food towards the country housewife’s home-made jam.

This intolerance goes much further than mere equalitarianism. There is no harm, or comparatively little, in a skilled steelworker earning £15 or £20 a week while a cotton operative gets a quarter as much and an old-age pensioner manages on 26/-. But that a professional man or *rentier* drawing a similar income to the steelworker’s should spend some part of that income on things which it would not occur to the steelworker to buy—on financing the building of his own house, on keeping a baby car, on domestic help for his wife, or on foreign travel—is offensive to the working class sense of propriety. These things are the badge of class privilege; and how much further Labour opinion goes than official action towards their restriction and discouragement can be easily estimated by anyone who cares to look up Hansard or the correspondence columns of the Labour press.

There are those in the Labour camp who realize that a one-class society, in which the standards, tastes, income and habits of the upper-grade artisan were the only ones permissible, would be a stagnant monstrosity; and of course there is general agreement that in this wicked world, as it is, a Labour Government must offer bourgeois salaries to the high executives in enterprises under its control. But the long-run opponents of homogeneity have against them the whole weight of mass working class opinion; a nationally effective majority. In the long run, middle class standards and middle class values are at the mercy of that majority; and their prospects are correspondingly precarious.

If it were only the comforts and enjoyments, *per se*, of the middle classes which were at stake, this prospect might not from the national point of view be so very disastrous, unpleasant as it would be for the survivors of the old order. But unfortunately for the imperatives of “social justice” (equality, identity, the council house and the trade union card for all) those comforts and enjoyments are inextricably mixed up with the necessary conditions of professional life, from business organization to art. High-grade intellectual work can no more be expected on an artisan’s income and in the conditions which that income implies than high-grade athletic

achievement on a coolie's diet. It demands privacy ; privacy (except for permanent celibates) costs a disproportionate amount of money. It demands a measure of freedom from incessant preoccupation with penny-saving, the half-hour in the rain at the bus-stop, the long wait to borrow the book which one cannot afford to buy, the odd jobs and make-do-and-mend which nibble away time and energy. These things are not necessarily more unpleasant to the professional than to the artisan. He cannot safely claim exemption for them as a sensitive soul of finer fibre than the common run ; but they affect his work as they do not affect the artisan's. They are, indeed, part of the "Early Struggles" chapter in many a distinguished biography ; but only the saints and heroes of the intellect can develop and preserve mental quality through a lifetime of them, and one cannot rely on the superhumanity of the professional. It demands, more positively, opportunity ; the relaxation in which, deep in the apparently idle mind, ideas meet and cross-fertilize and mature ; the stimulus of informal, as well as professional, meetings with colleagues and—often more important—others concerned with a widely different expertise, at home and abroad ; the leisure and means with which to balance the claims of speciality with a saving leaven of civilization. All these are expensive. If social justice is so defined as to demand that, in any society whose resources are inadequate to provide these desiderata for all, they neither need nor should be provided for any, then social justice demands that the leadership of intellectual life and the keys of progress shall lie in the hands of overworked, cramped and harassed men and women, their nose fast to the grindstone of a narrowly concentrated specialism, and unable to bring even to that specialism the long view and the organic sense which gives human value and fruitfulness. It demands the universal utility standard, the permanent renunciation of the best ; it demands, in short, that the growing points of the tree of social life, shall, because they form so small a part of that tree's bulk, be starved and obliterated. Demanding these things, social justice so defined is incompatible with either civilization, in any sense higher than that connoted by universal main drainage, or with progress. A strictly equalitarian Britain might, by exploiting the discoveries of others, and by pursuing the routine development of ideas and techniques latent when equalitarianism imposed itself, achieve some measure of

technological advance ; but even in this field it is likely to lag (with what effect on its international trade, and hence on ultimate general standards, can be imagined). And outside the technical field, in the arts, the humanities and the graces, it would relapse into the drearily provincial *ersatz* of a fifth-rate Polytechnic.

## VI

### THE RENASCENCE OF AN ÉLITE

Strict equalitarianism, indeed, is not at present on the agenda. But equalization has gone further in Great Britain than in any other country in the world ; there is not the slightest indication that the trend is likely to be reversed ; and while the large-property-owning minority of the middle class can cushion itself for a while against the collapse of its standards by drawing on capital (a process which fiscal policy does everything to encourage) the remainder, including most of the professionals, see an ever-darkening prospect lit only by such fitful anomalies as Mr. Aneurin Bevan's miscalculation on the dentist's chairside hours.

To point out that middle class standards are suffering, and to add that the prospects of national progress and civilization are suffering with them, is not to claim for the past and present members of that class a monopoly of ability, of capacity to enjoy and contribute to civilization, or, needless to say, of superior moral desert. The strength of the middle class case lies in the necessity, to a progressive and civilized society, of an *élite* with privileges corresponding to its function. The weakness of that case lies in the fact that membership of the middle class has not in the past depended, and does not depend now, on the qualifications which make an *élite*. Ownership of property, the qualification *par excellence* for middle class status and, given time, the entry-pass to the aristocracy itself, has been very shakily and imperfectly related to function ; it has been attained by inheritance, by sharp practice, by sheer luck, and by the passive and effortless abstinence of the already comfortably off, quite as often as by hard work, imagination, and risk-taking in the service of the common need. It once carried prestige ; it carries prestige no longer, and indeed according to the ruling working class ethic is rather discreditable than otherwise. The ability to earn a high income, too, has been linked with the property, or at the very least with the

incomes, of luckily chosen parents, ensuring a good start in life largely irrespective of innate gifts or of assiduity in cultivating them. And the end product has been something far short of the ideal *élite*, whose privilege would represent a price well worth paying by the community for leadership, outstanding service, and the setting of civilized standards.

What some members of the privileged class have achieved, in these fields, is denied by few; but the devoted scientists and intellectuals, the social reformers, the artists, the inventive and ingenious business men, the imaginative organizers, the great administrators, the voluntary public servants, to whom the privileges of that class have meant opportunity for valuable achievement, or who by achievement have won entry into its ranks, are not felt to be representative. They are considered the chance by-product, inordinately expensive, of a system of parasitism in which the parasites for the most part are neither useful nor even ornamental, but merely esurient, oppressive, and a source of false values and bad morality. Bernard Shaw and others would add with some justification that they are not even happy in the enjoyment of their parasitic existence. Indeed one must wonder how far it is worth burdening the community in order to produce the sort of society depicted, at its apogee, in Samuel Butler's *Way of All Flesh*; or, for that matter, in the *Forsyte Saga*, or, to go a little further afield, in the *Recherche du Temps Perdu*. The most determined rebellion against middle class standards and the system which has made them possible has come from the middle class itself—as the history of Socialism, from Marx and Engels through the Fabians to the present members of the Labour Cabinet, makes plentifully clear.

But let all this indictment be granted, let every overstatement pass; nothing in it weakens the case for a privileged class as an essential to progress and civilization. One may wholeheartedly agree that the privilege should be open to all who qualify for it, and denied to the incompetent; that it should carry with it no flavour of social exclusiveness; that the less reputable means of earning it—the exercise of monopoly power, the battening on public ignorance, above all the exploiting of a working population held under by a chronic "buyers' market" for labour—should be made as impossible as legal reform and economic policy can make them. Or one may modify the first of these principles, in the interests of

continuity and the family, to allow inheritance still to play some diminished but significant part. There is left in any case the ideal, not of a one-class society, an amorphously uniform mass in which the only outlet for aspiration is the possibly sinister drive for personal power in a bureaucratic hierarchy, but of an élite drawing to itself all the highest ability of every type, enjoying the conditions in which that ability can fructify for the common good, and permeated with the conviction that—to go back to the phraseology of an older order—*noblesse oblige*. Privilege, in such a setting, loses its colour of injustice. On the one hand the wide educational ladder, the emphasis on merit, *la carrière ouverte aux talents*, on the other the recognized responsibility of the privileged to justify themselves by devotion, the full use of their gifts, and adherence to a code of civilized behaviour, should make it easy for the masses (themselves freed from primary poverty) to accept the principle that both the incentive and conditions for high achievement demand a departure from equality.

But will they accept that principle? Is such an acceptance imaginable in a society conditioned as ours has been, a society where envy is raised to the rank of a virtue and where *Schadenfreude* smoulders like a peat fire below the surface of opinion, to burst into gleeful flame at every fresh misfortune befalling the middle classes? Socialism need not mean equality—one can easily point to Russia, with its enormous divergence of earnings, and glittering prizes for such individual achievement as does not fall foul of authority. But Russia is not a democracy. Britain is. If she was not ten years ago, she is now. "The Revolution has no need of chemists" said the Jacobins; and they cut off Lavoisier's head. The social democracy of today recognizes its need for chemists, but is no less ready to cut off most of their effective income—and, *a fortiori*, the incomes of those whose contribution to economic well-being is less directly assessible. The prospects of the middle class are, in fact, exceedingly dark; when taxation and confiscation have done their full work, those of the very wealthy sub-minority will be no less so; and the prospects of the community at large, however rosy they may appear to the emancipated and rejoicing workers, are darkened to match. One can only fall back—faintly trusting the larger hope—on the hitherto unfailing capacity of democracy to learn; on that trust in the people which is the first article of faith of the democrat's much-questioned creed.

None of the above argument should be interpreted as a plea for a return to the injustice, the crippling deficiencies, the waste and the frustration of pre-war society with its chronic under-employment. The golden age of the middle classes was not a golden age for the worker. Even if his material standards were higher than the Labour Party encourages its supporters to believe (and moreover were rising decade by decade) his human dignity and sense of freedom were cruelly incomplete. There is no reason nor justification for giving the maintenance of full employment, and the reality which it bestows upon democratic forms, a lower priority than it now holds among the aims of good government, any more than there is reason for jettisoning all aspirations towards social justice and returning to the tooth-and-claw rule of the strongest. But inflation-plus-repression is no more to be exclusively identified with full employment than the one-class society with social justice. A policy could ideally be framed to ensure that, given relative wage levels compatible with a distribution of manpower answering to current relative demands and scarcities, and a general wage level compatible with balance-of-payments equilibrium, no man could lack work for longer than it took him to move from one job to another. That ideal is very different from the present implied promise to underwrite any increase in wages regardless of its relation to productivity. The former leaves the free price system in workable order, the latter enforces authoritarian control ; the former preserves the value of both personal and institutional savings, the latter inexorably destroys them. It is not, fortunately, inconceivable that the citizens of the new social democracy will realize this ; and, rightly insisting on the safeguarding of their livelihood and most valued liberty by the first type of policy, will refuse to pay the price of the second. Small savers, friendly societies, the trade unions themselves, have, after all, an interest in the safeguarding of property ; and even the most indifferent and unadventurous individual has some preference for buying what he likes rather than what he does not like and choosing the occupation which he finds most congenial rather than the one to which the planners direct him.

The risk is, of course, that the same irrationality will persist in the future as has contributed so largely to the troubles of the present ; the irrationality which, confronted with two irreconcilable alternatives—the sellers' market and free move-

ment of labour, a steadily rising money wage and a stable cost of living, an absolute priority for schools and hospitals and an absolute priority for housing, an increasing proportion of communal expenditure and a fully-maintained power of personal spending—and asked "Which?" answers with self-righteous certainty "Both!" But this greatest risk of democracy must be accepted with the rest; with the risk that, like the tailless cow in the proverb, democratic society will not value its *élite* until they have been irretrievably liquidated, with the risk that, choosing as leaders men really indifferent to the values they proclaim, it will sacrifice, as Russia and her satellites have done, even that freedom which it has set above all others, and follow the road to serfdom to its bitter end.

Belief in democracy involves today, as it has always done, a faith in certain assumptions known to be perennially insecure: that truth will prevail before error has done irreparable harm, that popular responsibility will hold fast under strain, that majorities will be tolerant and minorities loyal, that consent will be valued more highly than power; that behind every divisive consciousness of private or group interest there will survive, to play the part of a *vis medicatrix Naturæ* of the body politic, that sense of justice and of the ultimate value of other human personalities which alone can reconcile freedom and solidarity. If these assumptions are threatened today, the threat is nothing new; its form is different, but there is no difference in the civic qualities required to counter it—good faith, good will, and good sense. No previous crisis has found them lacking in this country; and it is not unreasonable to hope that by their timely exercise British social democracy may meet the test imposed upon it by its newly gained and imperfectly understood power, and stop short of that authoritarian one-class society which so drearily caricatures the democratic ideal.

*April, 1949.*

HONOR CROOME.

## Statistics: Explanatory Notes

**THE BALANCE OF PAYMENTS.**—It is estimated that, although the total net deficit on current account will amount to only £15 millions for the first six months of 1949, there will be a deficit with the Western Hemisphere of £115 millions—some £100 millions less, at an annual rate, than the deficit of £340 millions for 1948.

**THE BUDGET ACCOUNTS.**—The first chart on page 36 is designed to show the movements in ordinary revenue and expenditure, together with net below the line receipts and payments. During the War rather less than half of total expenditure was covered by revenue, the difference—as brought out by the second chart—being met by borrowing. Although in 1947–48 there was a surplus of ordinary revenue over ordinary expenditure of £658 millions this was more than offset by net below the line expenditure of £685 millions. In 1948–49 in contrast, revenue (including E.R.P. receipts) exceeded total expenditure by £460 millions, reflected in a net redemption of debt to an equivalent amount. On this basis, the Chancellor has budgeted for an overall surplus of only £14 millions for the current financial year.

**PERSONAL EXPENDITURE.**—The chart on page 37 depicts, for some main groups, not only the changes in actual expenditure at current market prices but also what the cost would have been if prices had not risen since 1938. Last year, for example, £2,181 millions was spent on food at the prices then ruling but, revalued at 1938 prices, expenditure would have amounted to only £1,340 millions. Although this represents an increase of some £40 millions on the amount actually spent on food in 1938, it should be remembered, as is pointed out in the *National Income White Papers*, that no account is taken of changes in quality or of restrictions on the consumer's freedom of choice, nor is any allowance made for the increase in population.

**U.S. PRICE TRENDS.**—From the charts on pages 38 and 39 it will be seen that the sharpest price falls in America since the turn of the year have been in metals. The price of steel scrap, often taken as a barometer of business activity, had fallen by the end of April to \$24 a ton from a peak last winter of nearly \$43. The prices of non-ferrous metals have also fallen abruptly, leading to reductions in the U.K., although the new prices are still well above current U.S. levels.

Wholesale prices by mid-May had fallen by more than 8 per cent. since last August although this has been reflected so far in only a slight decline in prices to consumers.

**GRAIN SUPPLIES.**—World output of bread grains (wheat and rye) in 1948 exceeded pre-war production for the first time since the end of the War. Europe's contribution, however, has fallen, last year's output being still 16 per cent. below the pre-war average. American production, in contrast, shows a considerable increase and, on the latest estimates, the 1949 winter wheat crop is expected to be the second largest ever recorded. The trend of wheat prices in the U.S. is shown in the graph on page 38. The second chart on page 40 shows the predominant position of the U.S.A. in the production of coarse grains (barley, oats and maize).

America has also led in exports of wheat since the end of the War, as is brought out in the chart on page 41. Of total shipments of nearly 24 million tons from the four main exporting countries during 1948, the U.S. were responsible for 54 per cent. This is a great increase over pre-war exports; the lowest figure was touched in 1935–6 when only 112,000 tons were shipped abroad. The great bulk of these exports has gone to Europe, where net imports last year totalled 18 million tons, over double the 1934–8 level.

**NOTE CIRCULATION AND DEPOSITS.**—The level of the note circulation varied little during 1948, apart from the July and December peaks, in contrast to the continuous downward movement in the last half of 1947—largely due, it was suggested, to dishoarding of notes on fears of a calling in of the existing note issue. The lowest point since April, 1945, was touched in February this year, followed by a sharp up-turn in March and April. Bank deposits rose gradually during 1948

but, after a record fall in February this year, showed by May only a slight increase on the year.

The third chart on page 42 compares these trends, with 1938 as the base year, after adjustment for seasonal variations. Deposits, on this basis, after touching a peak in December last, were in May only fractionally higher, on balance, than twelve months previously.

**BANKS' ASSETS STRUCTURE.**—The first chart on page 43 shows the movements in the clearing banks' assets during the last four years. Relative changes are brought out in the second chart, which expresses each asset as a percentage of deposits. Thus, although advances have risen steadily they represented, in May this year, no more than 24 per cent. of deposits, compared with 43 per cent. in 1938, whilst Treasury Deposit Receipts, which in 1945 approached 40 per cent. of deposits, had declined to 18 per cent. The chart also brings out the decrease in the cash ratio since December, 1946, when a figure of 8 per cent. was agreed upon.

**BELGIUM.**—Industrial production in the last quarter of 1948 was relatively stable at about 20 per cent. above the pre-war level. Coal production has been rising steadily whilst the output of steel, at the beginning of the year, was running at not quite double the 1938 rate. Unemployment, however, has also increased considerably since last autumn; in January it amounted to nearly 13 per cent. of insured workers, although there has subsequently been a slight decline. As regards external trade, a notable achievement was made in both February and March this year when the value of exports slightly exceeded that for imports.

**COAL.**—Production shows an upward trend and in the first quarter of 1949 was only 2 per cent. below the pre-war weekly average. Following a sharp drop in April, due mainly to the incidence of the Easter holidays, output recovered in May. Exports this year are estimated at 17-20 million tons, less than half the level for 1937, and only slightly above the 1948 figure. Recruitment is virtually stagnant, the target for end-1949 envisaging a net increase of only 10,000 on the year.

## Books and Publications

**WANDERING SCHOLAR** By M. J. BONN

(Cohen & West. Price 18/-).

Born in 1873 at Frankfurt-on-Main and destined, so he supposes, to be an economist, Dr. Bonn has been, since the First World War, a roving professor or "gypsy scholar"; his journeys have resulted in this interesting book—"not a history of my time, nor a full tale of my life."

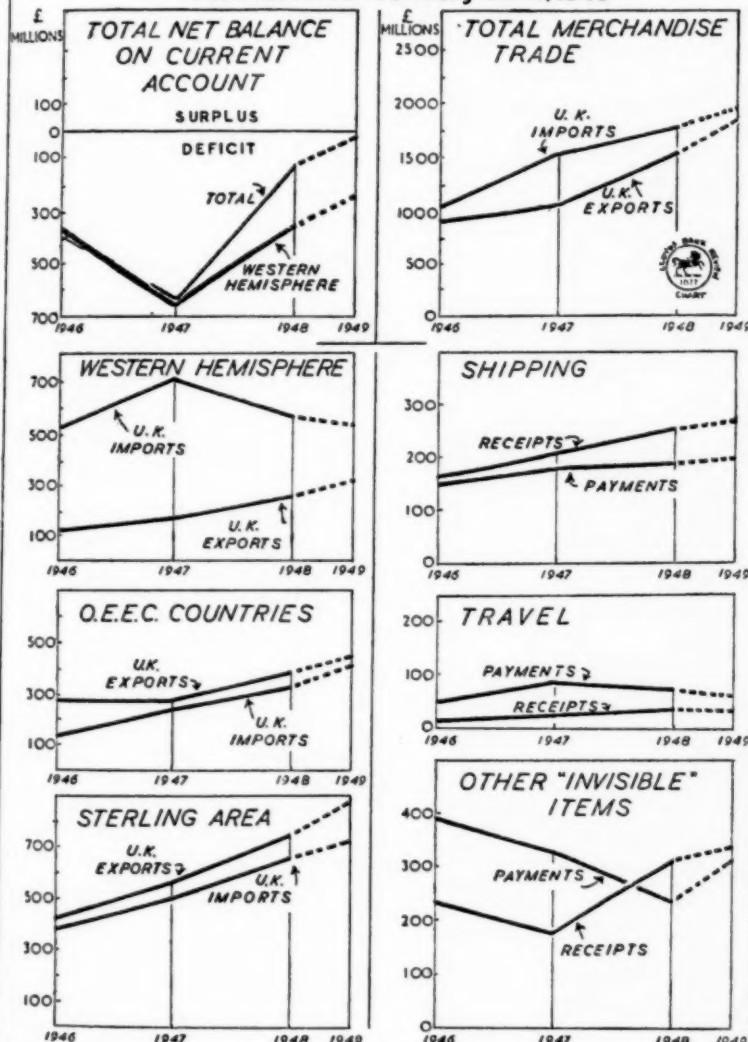
On the German scene Dr. Bonn writes with authority—Kurt von Schleicher was the only Chancellor of the Republic he never met—and the student of economics, in particular, will find useful his account of the inside story of the inflation and stabilization of the mark.

Dr. Bonn has travelled widely in Europe and America, and he has some shrewd comments on economic and social conditions in the two Continents; there are some wise words, for example, on our peculiar class-structure, a phenomenon which often baffles less thoughtful writers from abroad. Of interest also is the view taken of our departure from the gold standard, although to claim our statesmen " gloated over the economic anarchy their newly acquired monetary nationalism was ushering in " seems an exaggeration. Not the least delight of the book is the number of vivid etchings of the wide range of men of different callings and character that Dr. Bonn has met or known—from the last King of Bavaria to Nicholas Murray Butler, in the intellectual field "the leading representative of mass production on the running belt."

J. R. W.

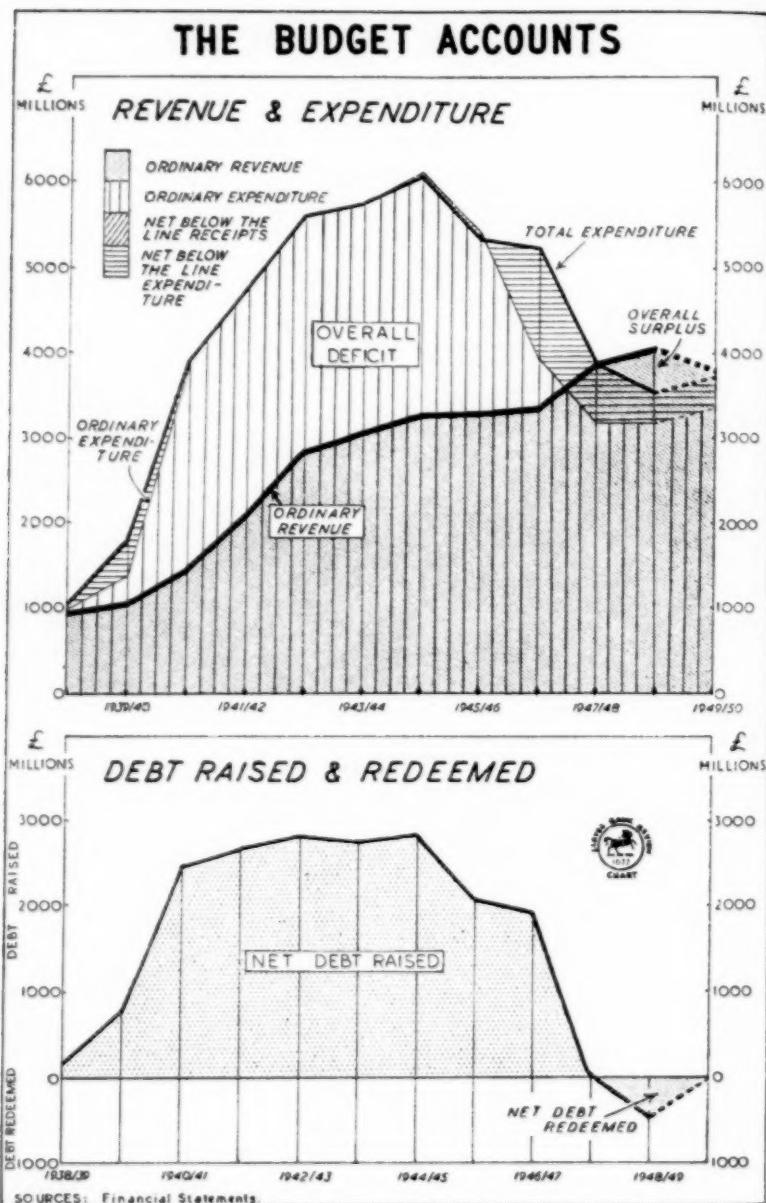
## U.K. BALANCE OF PAYMENTS

Estimates for January-June, 1949

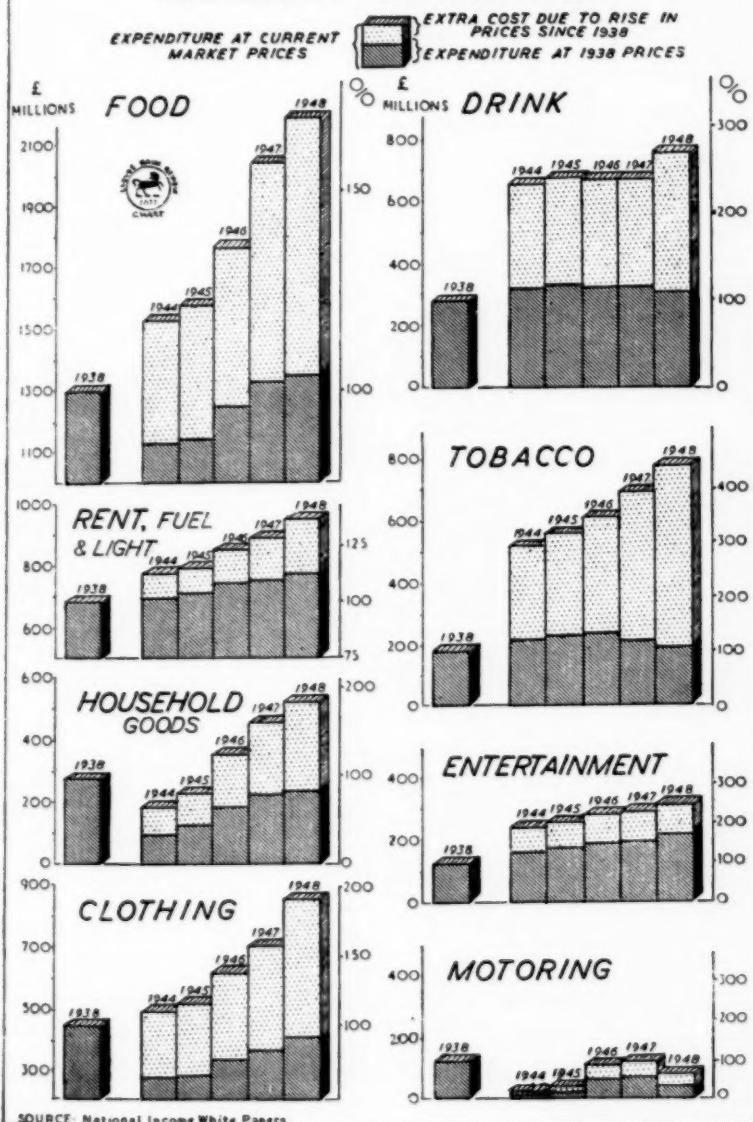


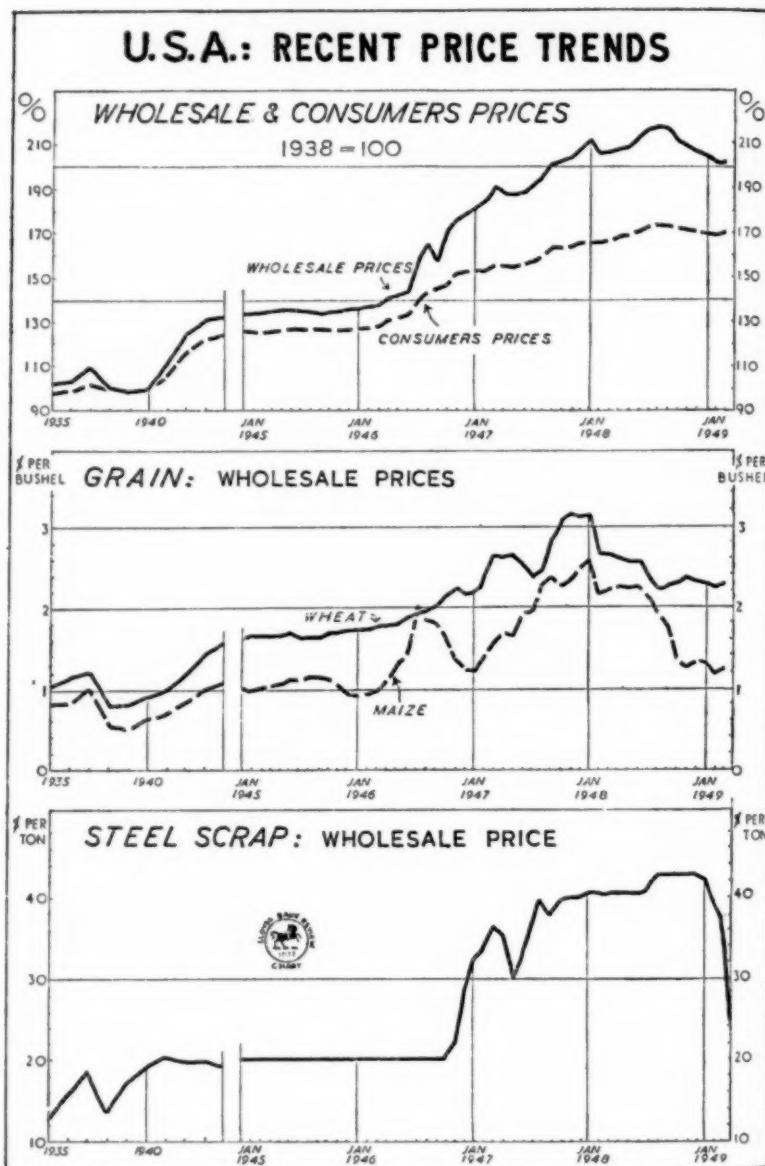
N.B. 1949 is forecast for Jan-June at annual rate

SOURCE Commands, 7647, 7648.

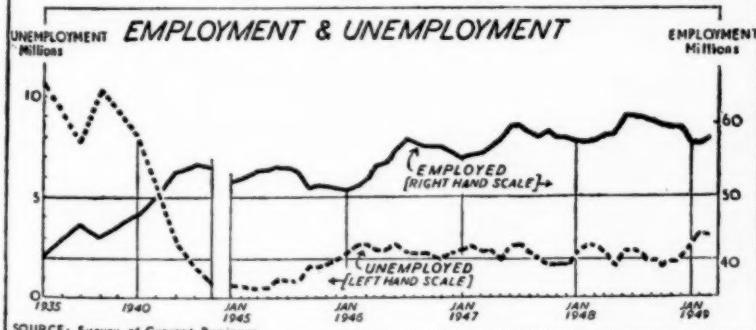
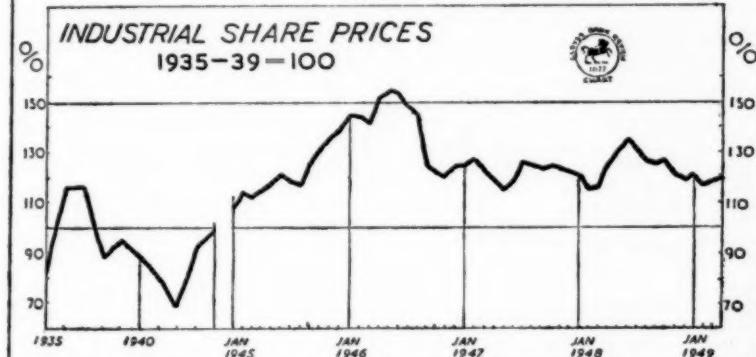
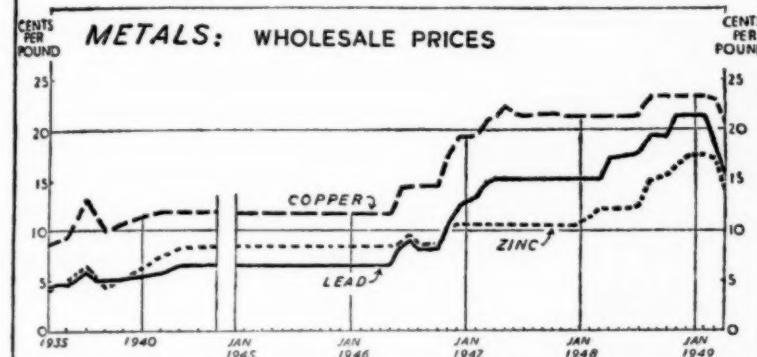


## PERSONAL EXPENDITURE

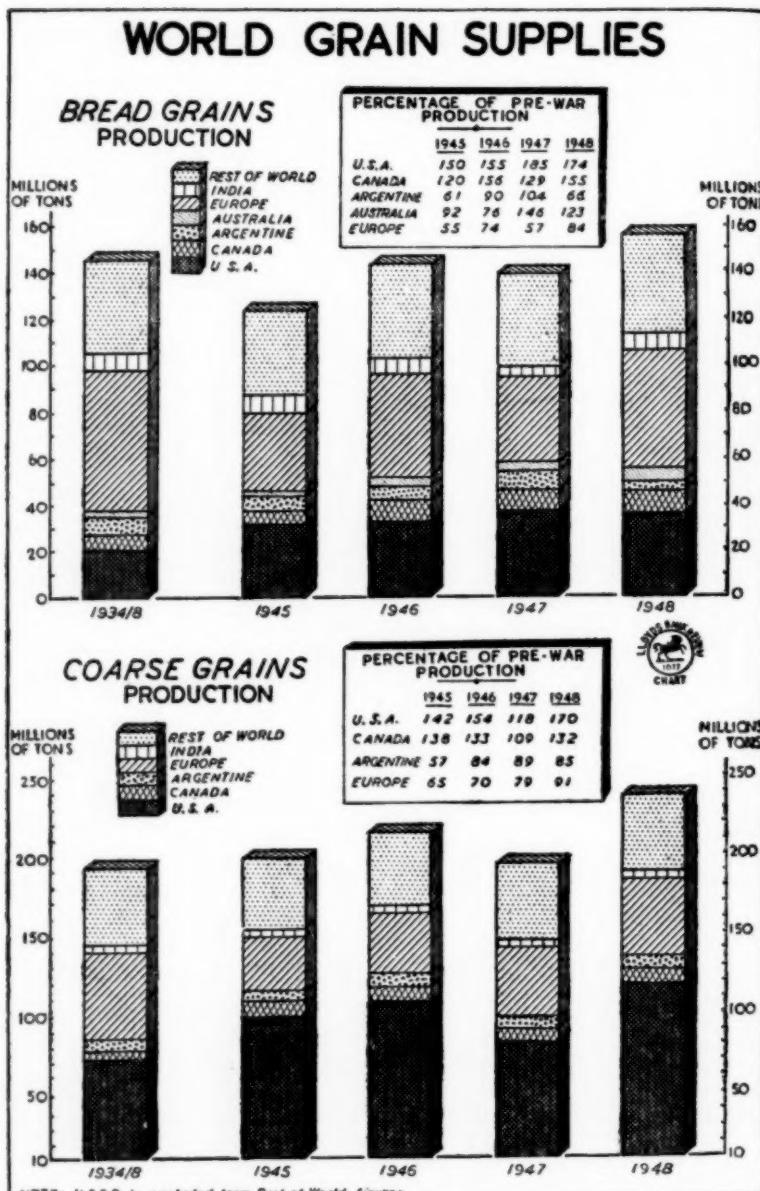




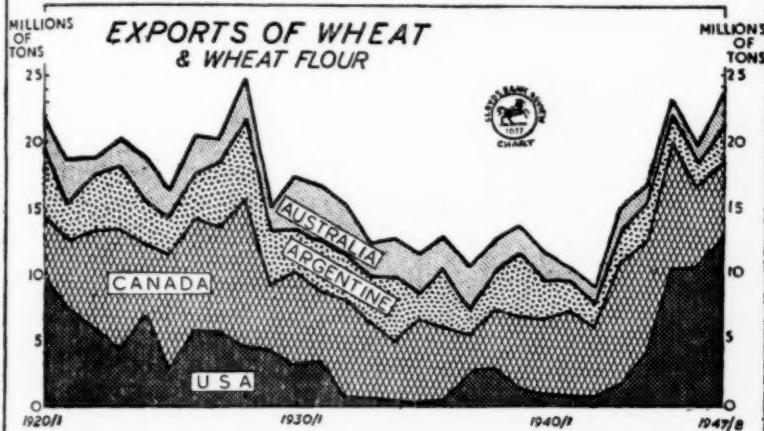
## U.S.A.: RECENT PRICE TRENDS



SOURCE: Survey of Current Business



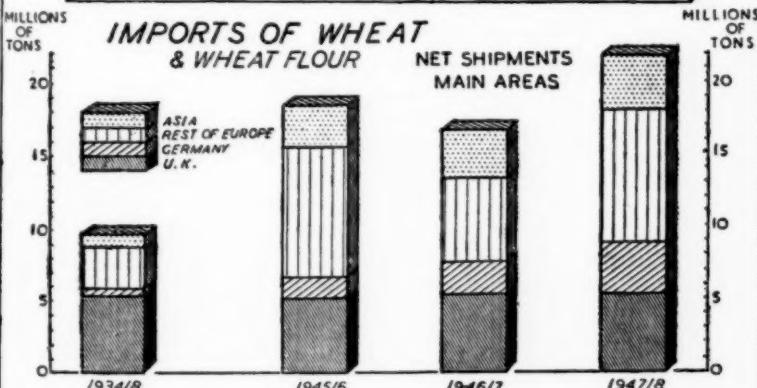
## WHEAT: EXPORTS & IMPORTS



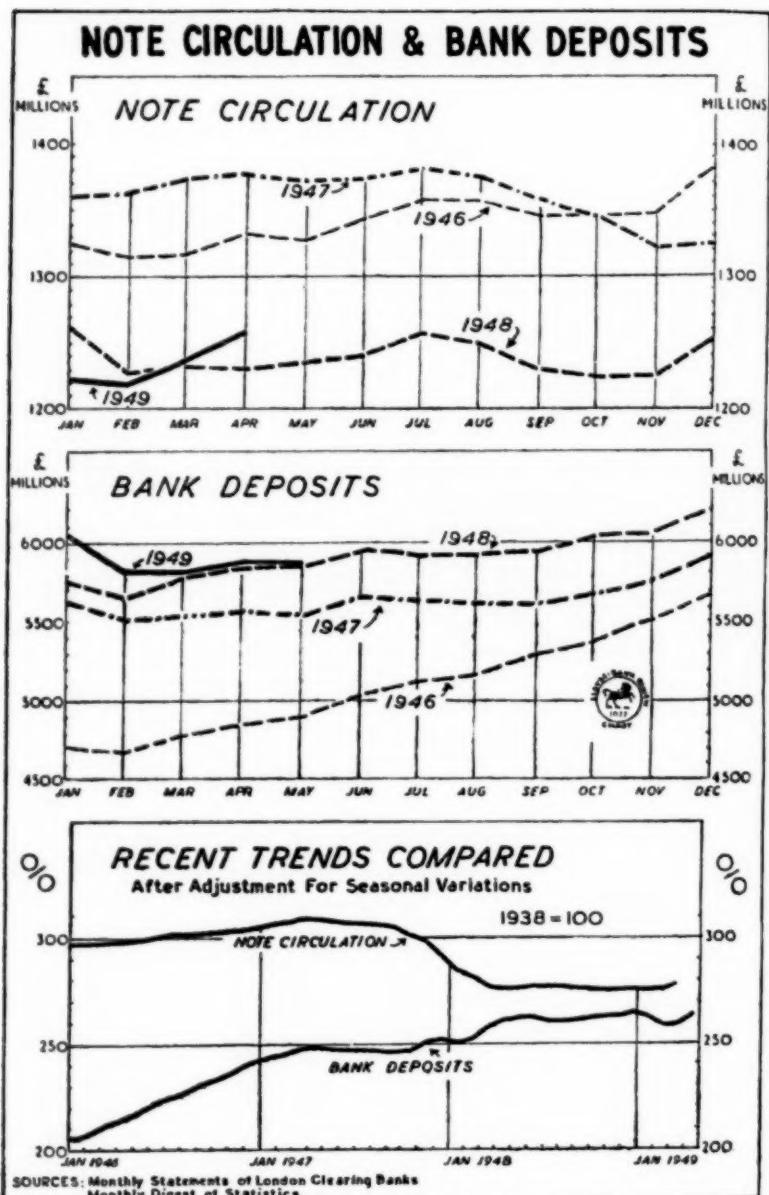
### WHEAT IN TWO WORLD WARS

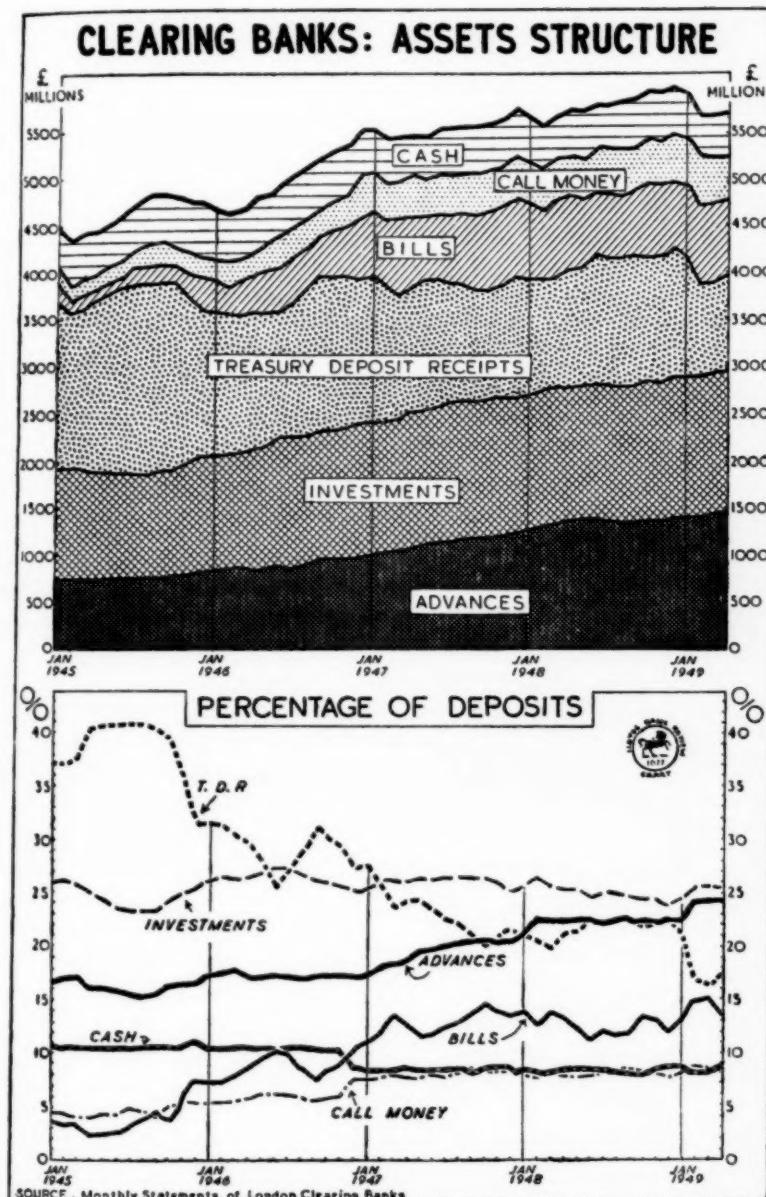
U.S.A., Canada, Argentine & Australia

FIRST WORLD WAR	AREA		YIELD		PRODUCTION Million Tons
	Million Acres Sown	Harvested	Bushels per acre Sown	Harvested	
1909-13	85.5	80.6	13.1	13.8	29.9
1919-22	115.2	109.7	12.6	13.2	38.9
1926-30	125.8	118.1	13.5	14.4	45.8
SECOND WORLD WAR					
1934-38	130.5	110.2	10.6	12.5	36.9
1945-48	123.8	118.6	15.8	16.5	52.3



SOURCES: F.A.O. Grain and Statistical Bulletins, The State of Food and Agriculture (F.A.O.).





## BELGIUM: RECENT TRENDS

